

T00F
Department of Business and Economic Development - PAYGO

Maryland Economic Development Assistance Fund (MEDAF)

PAYGO SF	\$11,750,000	Recommendation:	Approve with language
GO Bonds	15,000,000		
Total	\$26,750,000		

Bill Text: Provide funds for grants and loans to local jurisdictions, businesses, and the Maryland Economic Development Corporation (MEDCO) for economic development projects within priority funding areas and eligible industry sectors. The funds appropriated for this purpose shall be administered in accordance with Article 83A, Sections 5-1401 through 5-1411.

Program Description: The Maryland Economic Development Assistance Fund (MEDAF) was established by the General Assembly under Chapter 301, Acts of 1999 to provide below market long-term fixed rate financing to specific growth industry sector businesses locating or expanding operations in a priority funding area. Funds may be used for current business needs including property acquisition, construction, or renovation of buildings including leasehold improvements and capital equipment.

Within MEDAF there are five funding capabilities:

- Significant strategic economic development opportunities: These are projects that will provide a significant economic development opportunity on a statewide or regional level.
- Local economic development opportunities: These are projects that provide a valuable economic opportunity to the jurisdiction and is a priority of that jurisdiction.
- Direct assistance to local jurisdictions or MEDCO: This is financial assistance to a local jurisdiction for local economic development needs.
- Regional or local revolving loan fund: This fund provides grants to local jurisdictions to help capitalize local revolving loan funds.
- Special purpose loans: These are loans to target specific funding initiatives deemed critical to the State's economic health and development.

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Program Performance: The MEDAF statute requires the department to submit an annual report of the activities of the program. According to the December 31, 2003 report, the authority approved 48 projects totaling \$24.0 million in encumbrances during fiscal 2003. The program also booked \$2.2 million in cancelled encumbrances. The breakdown of the encumbrances by funding capability is provided in **Exhibit 1** below.

Exhibit 1
Fiscal 2003 Encumbrance Activity

<u>Capability</u>	<u>Total Number of Projects</u>	<u>Total Funds</u>
Significant strategic economic development opportunity	4	\$5,500,000
Local economic development opportunity	16	\$10,565,000
Direct assistance to local jurisdictions or MEDCO	19	\$6,990,135
Regional or local revolving loan fund	4	\$790,036
Special purposes grant and loans	5	\$176,300
Total	48	\$24,021,471

Source: Department of Business and Economic Development

Year Program Began: 1999

Comments: The fiscal 2005 allowance totals \$26.7 million and is comprised of \$11.7 million in special funds and \$15.0 million in general obligation (GO) bond funds. The allowance provides a \$1.25 million increase over the fiscal 2004 legislative appropriation. The 2003 Capital Improvement Program (CIP) planned for \$10 million in general funds for fiscal 2005, which is being replaced with \$15.0 million of GO bonds in the fiscal 2005 allowance. During the last couple years of cost containment, MEDAF was sustained almost exclusively with special funds. However, the availability of these funds has diminished as the fund balance has been drawn down.

According to the capital worksheets provided by the Department of Business and Management, the administration plans to expand current MEDAF capabilities to include funding for projects located in distressed jurisdictions of the State. Presently such projects are funded through the Smart Growth Economic Development Fund (One Maryland). This program is scheduled to sunset on June 30, 2004, without further action of the General Assembly. Legislation is expected to be introduced during the 2004 session to expand MEDAF capabilities to accommodate One Maryland type projects. The allowance earmarks \$5.0 million in GO bond funds for this transition. **In order to more accurately track One Maryland projects within MEDAF, DLS recommends that the One Maryland Program be established as a separate subprogram within MEDAF to allow closer legislative oversight. Additionally, in fiscal 2003, the Department of Business and Economic Development (DBED) overestimated its loan interest and repayments by \$2.3 million. DLS recommends that DBED comment on its declining loan interest and repayment fund balance and the accuracy of its fiscal year 2004 and 2005 estimates.**

Fund Data

Fund History

	<i>FY 2003 Actual</i>	<i>FY 2004 Estimated</i>	<i>FY 2005 Estimated</i>
Beginning Balance	\$28,890	\$13,556	\$874
REVENUE			
GO Bonds	0	0	15,000
General Funds	2,000	0	0
Transfer Out	-4,000	0	0
Investment Income	863	102	119
Grant Repayments	521	500	400
Loan Interest, Repayments and Other	11,774	10,655	12,998
TOTAL REVENUE	11,158	11,257	28,517
TOTAL AVAILABLE	40,048	24,813	29,391
ENCUMBRANCES			
Loans	26,815	28,000	33,000
Cancelled Encumbrances	-2,209	-6,000	-6,250
Operating Expenses	1,885	1,939	2,154
TOTAL ENCUMBRANCES	26,491	23,939	28,904
Ending Balance	\$13,557	\$874	\$486

(\$ in Millions)

<i>Description</i>	<i>2003 Approp.</i>	<i>2004 Approp.</i>	<i>2005 Request</i>	<i>2006 Estimate</i>	<i>2007 Estimate</i>	<i>2008 Estimate</i>	<i>2009 Estimate</i>
PAYGO SF	30.000	25.500	11.750	11.750	10.500	10.500	11.000
GO Bonds	0.000	0.000	15.000	15.000	17.000	19.000	19.000
Total	30.000	25.500	21.750	31.750	30.500	30.500	31.000

Issues

1. Maryland’s Brownfield Cleanup and Redevelopment Programs

Background

A “brownfield” is a previously used and contaminated commercial or industrial site such as manufacturing plants, gas stations, strip malls, and agricultural operations in urban, suburban, and rural areas. These sites can be redeveloped into economic centers, recreational areas, housing, and open spaces. The Administration has identified the redevelopment of brownfields as a priority. However, creating a fair regulatory framework that encourages redevelopment and paying for brownfields cleanup and redevelopment is an increasingly difficult undertaking.

Exhibit 2 provides a summary description of the State’s core brownfield programs. The State’s programs are located primarily in the Maryland Department of the Environment (MDE) and DBED and vary from oversight and remediation of significant sites on the federal priority list to the provision of financial incentives to redevelop previously contaminated sites. DBED’s Brownfields Revitalization Incentive Program (BRIP) works in conjunction with MDE’s programs, and DBED also provides non-BRIP assistance through loans to local municipalities to purchase redevelopment sites and technical assistance to developers with locating credit tenants.

Exhibit 2 Maryland’s Brownfield Programs

<u>Program Responsibilities</u>	<u>Fiscal 2004 Working</u>		<u>Fiscal 2005 Allowance</u>	
	<u>\$ Millions</u>	<u>Positions</u>	<u>\$ Millions</u>	<u>Positions</u>
Maryland Department of the Environment				
Federal Facilities/National Priority List Superfund – Oversees the investigation and remediation of sites listed on the U.S. Environmental Protection Agency’s National Priorities List (NPL) and sites where the U.S. Department of Defense is a responsible party to contaminated sites.	\$0.1 SF \$2.8 FF	29	\$0.1 SF \$2.6 FF	29
State Superfund – Oversees cleanups of historically contaminated hazardous substances at sites that are not on the federal NPL.	\$0.2 GF	2	\$0.3 GF	6
Voluntary Cleanup/Brownfields – Encourages the voluntary cleanup and redevelopment of contaminated properties through streamlined regulations.	\$0.5 GF \$0.3 SF	9	\$0.2 GF \$0.6 SF \$0.7 FF	10
Hazardous Substance Cleanup Program (Capital) – Provides funds to cleanup uncontrolled orphan waste sites.	\$0.6 GO Bonds	0	\$1.5 GO Bonds	0
Total	\$4.4	40	\$5.9	45

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<u>Program Responsibilities</u>	Fiscal 2004		Fiscal 2005	
	Working		Allowance	
	<u>\$ Millions</u>	<u>Positions</u>	<u>\$ Millions</u>	<u>Positions</u>
Department of Business and Economic Development				
Brownfields Revitalization Incentive Program – Provides financial incentives in the form of tax credits, grants, and loans for redevelopment of eligible brownfield properties.	*		*	
<ul style="list-style-type: none"> • Site Assessment Assistance – Assist with up to 70% of the cost of Phase I and II environmental assessments either with a grant or low-interest rate loan. • Redevelopment Assistance – Assist with up to 70% of the cost of re-mediating contamination or redeveloping the site for a commercial or industrial use. • Real Property Tax Credits – Tax credits may be provided if a BRIP property is located in a taxing jurisdiction that has elected to participate in the BRIP. Currently 9 counties and 5 municipalities participate. 				

*BRIP funds are administered through the special loans program within the Maryland Economic Development Assistance Fund (MEDAF). Within MEDAF no specific funds are earmarked for BRIP.

Sources: Maryland Department of the Environment and Department of Business and Economic Development.

DBED and MDE programs dedicated to cleanup and revitalization have had a substantial impact. As of June 30, 2003, DBED’s Maryland Economic Development Assistance portfolio consisted of 12 brownfield conditional grants valued at \$780,021 and two brownfield loans valued at \$2.3 million. MDE’s fiscal 2005 budget allowance includes nearly \$6.0 million in operating and capital funds for cleanup and revitalization efforts throughout the State. **Exhibit 3** provides program performance information indicating the following trends:

- 43% average annual increase in Voluntary Cleanup Program (VCP) acreage completed between fiscal 2001 and 2003;
- over 100% average annual increase in the number of jobs created as a result of MDE’s brownfield redevelopment efforts between fiscal 2001 and 2003; and
- a decline in DBED’s performance measurements since 2002 largely due to cost containment.

Exhibit 3
Brownfield Program Performance Trends

	<u>Actual</u> <u>2001</u>	<u>Actual</u> <u>2002</u>	<u>Est.</u> <u>2003</u>	<u>Est.</u> <u>2004</u>	<u>Est.</u> <u>2005</u>	<u>Ann.</u> <u>Chg.</u> <u>01 – 03</u>	<u>Ann.</u> <u>Chg.</u> <u>03 - 05</u>
MDE							
Acres of property in the VCP completed	120	299	247	350	450	43.5%	35.0%
No. of properties completed	n/a	16	24	34	44	n/a	35.4%
No. of jobs created as a result of brownfield site	429	1,700	1,810	2,000	2,000	105.4%	5.1%
Capital investment in cleanup sites (\$ in Millions)	n/a	\$200	\$428	\$450	\$500	n/a	8.1%
DBED							
Acres impacted by BRIP	198.9	330.0	46.2	55.6	n/a	-51.8%	n/a
No. of properties assisted	9	13	7	4	n/a	-11.8%	n/a
Job capacity created	3,200	5,420	800	0	n/a	-50.0%	n/a
Capital investment in cleanup sites (\$ in Millions)	\$163	\$285	\$90.10	\$36.40	n/a	-25.7%	n/a
Assessment assistance provided (\$ in Thousands)	\$182	\$375	\$181	\$0	n/a	-0.3%	n/a
Remediation assistance provided (\$ in Thousands)	\$0	\$2,483	\$0	\$1,310	n/a	n/a	n/a

Source: Maryland Department of the Environment; the Department of Business and Economic Development.

The Governor’s Brownfield Initiative

The Administration has announced a series of legislative (HB 294/SB 186) changes for improving and strengthening the State’s brownfield efforts. Key components of this initiative are described below.

- **Increase Fees.** Make the \$6,000 application fee charged to a developer nonrefundable, establish a \$2,000 “premier” surcharge for developers who need their applications reviewed in five business days or less, and establish a \$2,000 fee for properties needing institutional controls. MDE advises that the new application fee may generate \$280,000 in new annual revenue.
- **Reduce the Application Process Burden.** Reduce brownfield application review time from 60 to 45 days, and cleanup plan approval time from 120 days to 75 days.
- **Ensure Compliance.** Allow the State to seek treble damages against property owners who refuse to follow through with clean up orders.
- **Revamp Program Coordination.** Coordinate VCP’s and oil cleanup program’s project management to improve customer service. Under current law if a party receives a grant or loan under BRIP for an environmental assessment and an application is not made and accepted by

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MDE within 12 months, the grant must be paid back and the low-interest rate loan will convert to a market-interest rate loan.

- **Expand Eligibility.** Expand eligibility to local and municipal governments who take property title under eminent domain/condemnation. Currently, an inculpable party is defined as a party who has never owned the land. If a jurisdiction takes title to a property with intent to redevelop it, under the current law it is interpreted as a responsibility party. Proposed legislation would clarify that the local or municipal government is not a responsible party and is entitled to inculpable party status.

Joint Recommendations

DLS recommends that DBED and MDE brief the committees on the budgetary and programmatic impacts of the Governor’s proposed brownfield legislation and the potential benefits of coordinating the oil contamination program and VCP.

MDE Recommendations

DLS recommends that MDE brief the committees on the extent to which the additional fee and penalty revenue generated by the proposed brownfield legislation would offset the need for general funds. It is further recommended that four new State Superfund Program positions in the fiscal 2005 allowance be deleted since they are not consistent with the recommendation of the Spending Affordability Committee for new position growth.

DBED Recommendations

DLS recommends that DBED brief the committees on the benefits of clarifying the statute to more clearly define who is an “inculpable person” vs. who is considered a “responsible person” and why only 9 of 24 Maryland counties are willing to participate in the program. DLS also recommends that DBM and DBED jointly establish a subprogram for BRIP funding within the MEDAF program, in order to improve legislative oversight.

Recommended Actions

1. Add the following language:

Provided that beginning July 1, 2004, the Department of Business and Economic Development shall establish separate subprograms and cost centers through the State Budget and Financial Management Information System for the Brownfields Revitalization Incentive Program, and the Smart Growth Economic Development Fund (One Maryland) contingent upon the enactment of legislation to establish One Maryland as a component of the Maryland Economic Development Assistance Authority Fund.

Explanation: This language will aid the legislative oversight process of the Brownfields Revitalization Incentive Program, and the Smart Growth Economic Development Fund (One Maryland) programs by requiring the Department of Business and Economic Development establish a financial tracking system to reflect the resource deployment and expenditures for these programs.

Fiscal 2005 Proposed Projects

The department expects to manage the activity level for fiscal year 2005 by funding 50 - 60 transactions, using approximately \$22 million in project loan, grant, conditional grants, and investments. Should additional financing opportunities be available, the department could use the budget amendment process to increase its special fund appropriation by making use of available fund balances.

Fiscal 2004 Project Status

<u>Project (Location)</u>	<u>Amount</u>	<u>Approved</u>
Fiscal 2004 Year-to-date Disbursements		
Elkton Strategic Plan – Cecil County (capability 3 grant)	2,500	07/01/03
Sierra Military Health Services – Baltimore City (capability 2 LCG)	275,000	07/30/03
Clipper/Soundstage – Baltimore City (capability 3 grant)	5,000	07/03/03
Feasibility Study – Worcester County (capability 3 grant)	35,000	07/28/03
Feasibility Study/Gas System – Worcester County (capability 3 grant)	325,000	07/28/03
BDC/Johns Hopkins/Bioscience Study – Baltimore City (capability 3 grant)	50,000	08/05/03
180's, Inc. (Big Bang Products) – Baltimore City (capability 2 loan)	300,000	09/15/03
Lenox – Washington County	150,000	09/05/03
No. Branch Industrial Complex (Feasibility Study)/PPG Building – Allegany County (capability 3 grant)	42,000	09/26/03
Phenix Technologies – Garrett County (capability 2 LCG)	250,000	10/01/03
Chesapeake Industrial Park – Harford County (capability 3 grant)	132,046	09/25/03
Chesapeake Bay Region Tech Ctr for Excellence – Talbot County (capability 3 grant)	35,000	10/29/03
Ellicott Machine Overpayment	23,661	11/09/03
PHH Vehicle Management Services, LLC/Arval – Baltimore County (capability 2 CG)	500,000	08/11/03
Tourism Economic Plan – Cecil County (capability 3 grant)	8,988	11/17/03
Pyramid Atlantic – Montgomery County (capability 5 grant)	29,675	07/17/02
Economic Development Wet Lab Feasibility Study – Charles County (capability 3 grant)	9,500	12/15/03
Rohde & Schwarz, Inc. – Howard County (capability 2 grant)	25,000	12/15/03
Relational Funding Corp (formerly ATK Tactical Systems, LLC/MEDCO – Cecil County (capability 2 LCG)	3,547,000	12/16/03
United Health Group – Various (capability 1 LCG)	300,000	12/12/03
Total Fiscal 2004 Year-to-date Disbursements	6,045,370	
Committed but Undisbursed Funds – Funding has Been Approved		
Maryland Grain Producers Utilization Board/Ethanol Study/Town of Hurlock – Dorchester County (capability 3 grant)	125,000	08/05/03
Newell Operating Co., Inc/Newell Rubbermaid/Amercok Division – Howard (capability 2 LCG)	250,000	07/11/03
County Commissioners of Queen Anne's County – Queen Anne's County (capability 3 grant)	21,000	07/17/03
County Commissioners of Cecil County – Cecil County (capability 3 grant)	13,055	07/29/03
Univec – Baltimore City (capability 2 conditional grant)	50,000	08/20/03
Baltimore County/Gray's Road – Baltimore County (capability 3 grant)	2,000,000	08/11/03
Canton Crossing LLC – Baltimore City (capability 5 grant)	1,000,000	11/10/03
Canton Crossing LLC – Baltimore City (capability 5 grant)	40,000	11/10/03
Jim Rouse Entrepreneurial Fund, Inc. (JREF)/Howard County Economic Authority – Howard (capability 4 grant)	250,000	08/19/03
Wicomico County – Wicomico County (capability 3 grant)	16,000	09/05/03
Garrett County Board of Commissioners – Garrett County (capability 3 grant (reduced from original \$40M)	29,955	10/03/03
MEDCO/Patuxent Business Park Office Building (Hipple Property Spec. Bldg.) – Calvert County (capability 3 investment)	2,500,000	09/05/03
Paul Reed Smith Guitars – Queen Anne's County (capability 2 loan)	1,500,000	10/30/03
Freeman Decorating Services, Inc. – Prince George's County (capability 2 LCG)	100,000	11/04/03
Montgomery County for the Bethesda Theatre/Nederlander Project – Montgomery (capability 3 grant)	375,000	11/04/03

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<u>Project (Location)</u>	<u>Amount</u>	<u>Approved</u>
Baltimore Museum of Industry – Baltimore City (capability 5 grant)	200,000	10/24/03
American Healthways, Inc. (CB Richard Willis)/Project Izzy – Howard (capability 2 conditional grant)	150,000	12/18/03
City of Aberdeen – Harford County (capability 3 grant)	7,694	11/17/03
Lowe’s Home Centers, Inc. – Washington County (capability 2 LCG)	150,000	12/19/03
Montgomery Co./Birchmere, Inc. – Montgomery County (capability 5 conditional grant)	375,000	12/15/03
City of Rockville (Incubator Feasibility Study) – Montgomery County (capability 3 grant)	20,000	12/05/03
Worcester County – Worcester County (capability 3 grant)	20,000	12/29/03
Total	9,192,703	
Qualified Recipient Pipeline – Signed agreement from company, awaiting formal DBED approval		
Engineered Polymer Solutions – Washington County	25,000	
Maine’s Paper – Howard County	125,000	
Boater’s World Marine Corps – Caroline County	125,000	
Project Shield – Howard County	2,500,000	
Ullico – Montgomery County	60,000	
Garden State Tanning – Washington County	50,000	
Worthington Armstrong Venture Enterprises (WAVE) – Harford County	300,000	
Worthington Armstrong Venture Enterprises (WAVE) – Harford County	200,000	
Under Armour – Anne Arundel County	200,000	
MEDCO/Mack Truck - Volvo – Washington County	3,600,000	
Your Other Warehouse (Phase I) – Washington County	300,000	
Your Other Warehouse (Phase II) – Washington County	300,000	
Total	\$7,785,000	

Fiscal Summary
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<u>Unit/Program</u>	<u>FY03 Actual</u>	<u>FY04 Legislative Appropriation</u>	<u>FY04 Working Appropriation</u>	<u>FY03 - FY04 % Change</u>	<u>FY05 Allowance</u>	<u>FY04 - FY05 % Change</u>
23 Maryland Economic Development Assistance Fund - Ca	\$ 27,208,125	\$ 25,500,000	\$ 25,500,000	-6.3%	\$ 11,750,000	-53.9%
Total Expenditures	\$ 27,208,125	\$ 25,500,000	\$ 25,500,000	-6.3%	\$ 11,750,000	-53.9%
General Fund	\$ 2,000,000	\$ 0	\$ 0	-100.0%	\$ 0	0.0%
Special Fund	25,208,125	25,500,000	25,500,000	1.2%	11,750,000	-53.9%
Total Appropriations	\$ 27,208,125	\$ 25,500,000	\$ 25,500,000	-6.3%	\$ 11,750,000	-53.9%

Note: The fiscal 2004 appropriation does not include deficiencies and the fiscal 2005 allowance does not reflect contingent reductions.